

FCO will be advising
on these recommendations.
8x on 18/8.

lh
4/8

GPS 1620
CONFIDENTIAL [FRAMEGENERAL]
FM BONN 031345Z AUG 91
TO PRIORITY FCO
TELEGRAM NUMBER 585 OF 3 AUGUST
INFO ROUTINE UKREP BRUSSELS PARIS

CONFIDENTIAL

dealt with by
phone: WR.

shh
24.3.81

GERMAN APPROACH TO THE MANDATE NEGOTIATIONS

1. WE HAVE BEEN REFLECTING ON THE PROBLEM OF ENSURING THAT WE AND THE GERMANS KEEP IN STEP AS THESE NEGOTIATIONS PROGRESS. IT SEEMS TO US THAT AS A START WE NEED TO BE CLEAR HOW FAR THE FEDERAL GOVERNMENT ARE LIKELY TO GO, AND HOW MUCH UPHEAVAL AND RANCOUR INSIDE THE COMMUNITY THEY MIGHT BE PREPARED TO ACCEPT TO GET RADICAL ACTION ON THE MANDATE REPORT, RATHER THAN TRY TO SETTLE FOR A LESS AMBITIOUS SOLUTION OF THE BRITISH AND GERMAN PROBLEMS ALONE WHICH WOULD PRESENT LESS OF A THREAT TO THE ESTABLISHED ORDER IN THE COMMUNITY. I SEE FROM RECENT EQS PAPERS THAT THERE IS NO CERTAINTY ON THIS IN LONDON. NOR IS THERE HERE. AS USUAL, BONN SPEAKS WITH A VARIETY OF VOICES.

2. AS YOU KNOW, EVER SINCE THE 30 MAY AGREEMENT THE GERMANS HAVE MADE CLEAR THEIR UNHAPPINESS WITH THE POSITION WHICH IT CREATED FOR THEM. THE AGREEMENT HELPED TO EXPOSE THE PROBLEMS AND DEFINE POLICY AISFS FOR THE FEDERAL GOVERNMENT. THEY WANT TO KEEP COMMUNITY EXPENDITURE WITHIN THE ONE PERCENT LIMIT. THEY WANT A BETTER BALANCE BETWEEN AGRICULTURAL AND OTHER COMMUNITY EXPENDITURE. THEY WANT NO OPEN ENDED COMMITMENT TO THE COMMUNITY FOR THEMSELVES. AND THEY WANT TO END THE UNFAIRNESS OF NET CONTRIBUTIONS AS BETWEEN THEMSELVES AND THE SMALL RICH. RECENTLY THEY HAVE EMPHASISED ALSO THE FRG'S REAL AND PRESSING ECONOMIC, BALANCE OF PAYMENTS AND BUDGETARY PROBLEMS. (THE REALITY OF THE LATTER IS ILLUSTRATED BY THEIR DECISION ANNOUNCED LAST WEEK TO HOLD DEFENCE EXPENDITURE IN 1982 AT CURRENT LEVELS.)

3. BUT THE GERMANS HAVE SEEMED PUZZLINGLY RELUCTANT TO DO MUCH ABOUT TAKING ACTION TO IMPLEMENT THEIR POLICY OBJECTIVES. CONTACTS BETWEEN SPECIALISTS SHOW THAT WE ARE FURTHER AHEAD IN OUR STUDY OF THE BUDGETARY PROBLEM AND POSSIBLE CORRECTIVES THAN THEY ARE. THE FEDERAL GOVERNMENT FAILED IN ITS EFFORT TO ENSURE THAT THE GERMAN COMMISSIONERS TOOK PART IN THE PREPARATION OF THE MANDATE REPORT. ALTHOUGH WE KNOW HE WAS IRRITATED BY THAT REPORT, THE FEDERAL CHANCELLOR SHIED AWAY FROM EXPRESSING HIS DISSATISFACTION AT THE EUROPEAN COUNCIL AND CONTENTED HIMSELF WITH TELLING THE PRESS WHAT HE WOULD HAVE SAID TO THE COUNCIL IF HE HAD ADDRESSED THE PROBLEM THERE.

CONFIDENTIAL

4

4. SO WHERE DO THE GERMANS STAND? THE TREASURY'S EXPLORATORY TALKS WITH THE ECONOMIC AND FINANCE MINISTRIES HAVE BEEN PROMISING AND GERMAN OFFICIALS THERE EXPRESS THEMSELVES ROBUSTLY. BUT AT THE END OF THE DAY THE ECONOMIC MINISTER'S DECISION WILL BE AFFECTED BY HIS PARTY LINKS WITH GENSCHER AND BY THE LATTER'S SPECIAL RESPONSIBILITY FOR COMMUNITY MATTERS. AND THE FINANCE MINISTER HAS ONLY A NATIONAL AND BUDGETARY INTEREST IN A SOLUTION: HE TOLD THE CHANCELLOR OF THE EXCHEQUER THAT HE WOULD HAVE NO PROBLEM WITH THE COMMUNITY BUDGET IF US INTEREST RATES WERE 3 PER CENT LOWER AND HIS BALANCE OF PAYMENTS WAS BETTER. ALL THE SAME LAMBSDORFF AND MATTHOEFER FACE HARD ECONOMIC AND BUDGETARY PRESSURES. I BELIEVE THEY WILL FIGHT HARD FOR A SOLUTION OF THE GERMAN PROBLEM WITH THE COMMUNITY BUDGET. BUT, THAT ACHIEVED, THEY ARE LIKELY TO SEE THE PROBLEM OF GETTING AN ENDURING AND SENSIBLE BUDGETARY STRUCTURE FOR THE COMMUNITY AS SOMEBODY ELSE'S BUSINESS.

5. ERTL IS BOUND TO TEMPORISE. HE HAS BEEN CLOBBERED IN CABINET AND BY THE FEDERAL CHANCELLOR AND HAS LESS FREEDOM OF ACTION THAN HE ONCE HAD. HIS HEART IS NOT IN THE RADICAL CHANGES IN THE CAP AND THE RELATIVE REDUCTION OF SPENDING ON AGRICULTURE WHICH A PROPER SOLUTION TO THE STRUCTURAL PROBLEM WOULD DEMAND. HIS LONG EXPERIENCE TELLS HIM THAT HE CAN WAIT AND WATCH UNTIL IDEAS FOR RADICAL REFORM RUN INTO THE SAND.

6. GENSCHER AND THE FOREIGN MINISTRY SEE THE NEED FOR SOME REFORM OF THE CAP AND THE BUDGET IF THE COMMUNITY IS NOT TO BECOME IMPOSSIBLY EXPENSIVE AND THEREFORE UNPOPULAR. BUT THEY FEEL EQUALLY COMMITTED TO THE COMMUNITY'S ENLARGEMENT AND DEVELOPMENT. THEY FEEL THAT THESE WILL INEVITABLY PUSH SPENDING ABOVE THE ONE PERCENT LIMIT, ABOUT WHICH THEY ARE AGNOSTIC. THEY WOULD PROBABLY LIKE TO GET FURTHER THAN A MINIMALIST SOLUTION OF THE GERMAN AND BRITISH PROBLEMS. BUT THEY ARE AFRAID OF THE HOSTILITY OF THE FRENCH AND THEIR SMALL RICH NEIGHBOURS. THEY FEAR A REVIVAL OF THE QUOTE UGLY GERMAN UNQUOTE IMAGE. THEY HAVE A NATURAL AND PROPER RELUCTANCE TO UPSET APPLE CARTS. AND THEY DREAD BEING THOUGHT UNCOMMUNAUTAIRE. THEY WOULD IN MY VIEW PRESS FOR FUNDAMENTAL MEASURES ONLY IF THEY WERE CONVINCED THAT TO DO SO WAS THE ONLY WAY TO MAKE PROGRESS TOWARDS THE HEALTHY FURTHER DEVELOPMENT OF THE COMMUNITY. THEY WOULD NEED TO CONVINCED THEMSELVES, IN FACT, THAT IT IS THE ADVOCATES OF A THOROUGH-GOING REFORM, NOT OF PALLIATIVES, WHO ARE THE TRUE EUROPEANS.

7. ALL THIS LEADS ME TO CONCLUDE THAT MOST MEMBERS OF THE FEDERAL GOVERNMENT WOULD BE PREPARED TO SETTLE FOR AN OUTCOME OF THE MANDATE NEGOTIATIONS WHICH GAVE THEM THE CONTINUATION OF THE ONE PERCENT LIMIT UNTIL ENLARGEMENT: SOME CAP REFORM: AND LIMITS ON THEIR NET TRANSFERS. NO DOUBT THEY WOULD LIKE TO ACHIEVE MORE, BUT I GUESS THEY WILL BE DETERRED FROM PRESSING THE POINT TO THE LIMIT FOR THE REASONS WHICH I HAVE SET OUT.

CONFIDENTIAL 2

9. IF I AM RIGHT , WE NEED TO DECIDE WHETHER WE TOO ARE PREPARED TO ACCEPT SUCH A LIMITED OUTCOME: WHETHER WE ARE PREPARED TO PURSUE THE RADICAL SOLUTION WITHOUT WHOLEHEARTED GERMAN SUPPORT AS ONE AGAINST NINE: OR WHETHER WE CAN AND SHOULD PERSUADE THE GERMANS THAT IT IS IN THEIR INTERESTS AND THOSE OF THE COMMUNITY TO HOLD OUT FOR A MORE AMBITIOUS OUTCOMEM IN WHAT FOLLOWS I ASSUME THAT YOU WILL CONTINUE TO ATTACH PARAMOUNT IMPORTANCE TO KEEPING THE GERMANS WITH US: AND THAT YOU WILL HOPE TO CONVINCHE THEM THAT FOR US BOTH TO FIGHT HARD FOR A RADICAL SOLUTION TO THE PROBLEM IS IN THE BEST LONG TERM INTERESTS OF THE COMMUNITY AS A WHOLE.

9. IT WOULD BE WRONG TO UNDER RATE THE DIFFICULTIES . OUR CREDIT IS POOR: WE ARE SEEN BY SOME AS JOHNNIES -COME-LATELY: RECOLLECTIONS OF THE LAST GOVERNMENT'S RENEGOTIATION RANKLE: WE WENT TO THE BRINK OVER THE 30 MAY AGREEMENT: THE FEDERAL CHANCELLOR, DESPITE YOUR AND OUR EFFORTS TO PUT HIM RIGHT, FELT INFURIATED OVER THE FISHERY IMPASSE: AND WE CANNOT GUARANTEE THAT THE NEXT BRITISH GOVERNMENT WILL NOT BE ONE WHICH WILL TRY TO TAKE US OUT OF THE COMMUNITY. MANY GERMANS HAVE SOME PRETTY DEEP-SEATED SUSPICIONS OF OUR COMMUNITY BONA FIDES. AND IN THEIR HEART OF HEARTS THEY MAY SUSPECT THAT WE WILL BE TEMPTED TO ACCEPT THE COMMISSIONS SOLUTION TO THE BRITISH PROBLEM AND, WITH THAT UNDER OUR BELT, TO FORGET OUR CONCERN ABOUT LIMITING AGRICULTURAL EXPENDITURE.

10. BUT IF WE DO NOT TAKE ON THE JOB OF PUTTING SOME FIGHTING SPIRIT INTO THE GERMANS, NO ONE ELSE WILL. THE CONTACTS AT TECHNICAL LEVEL HAVE GONE WELL : BUT WHAT IS NEEDED NOW IS A DIALOGUE AT THE HIGHEST POLITICAL LEVEL ABOUT THE POLITICAL CASE FOR A COHERENT REFORM OF THE CAP AND THE STRUCTURE OF THE BUDGET. THE IMPORTANT TARGETS ARE MATTHOEFER AND LAMBSDORFF IN THE EARLY STAGES OF THE DEBATE AND, EVEN MORE IMPORTANT, GENSCHER AND SCHMIDT THROUGHT OUT.

11. THE LATTER HAVE A LOT IN COMMON. A STRONG SENSE OF GERMAN RESPONSIBILITY. WELL - DEVELOPED SCEPTICISM. AN ABSENCE OF EURO FANATICISM - IN SCHMIDT'S CASE A WEARINESS WITH A LOT OF THE THINGS THE COMMUNITY TRIES TO DO. BUT ALTHOUGH NEITHER GIVES ABSOLUTE PRIORITY TO EUROPE, BOTH SEE THE NEED FOR STEADY IF MEASURED PROGRESS BY THE COMMUNITY FOR THE HEALTH OF EUROPE, TO KEEP GERMANY IN ITS PROPER PLACE (POWERFUL BUT NOT IRRESPONSIBLE), AND TO ENABLE EUROPE TO LOOK THE US, JAPAN AND THE SOVIET UNION IN THE EYE. THEY NOW WANT TO COMBINE THAT MEASURED PROGRESS WITH SAVING MONEY. GENSCHER'S POLITICAL UNION IDEAS SERVE JUST THIS PURPOSE. SCHMIDT IS SCEPTICAL ABOUT THOSE IDEAS BUT HE RECOGNISES THE SAME NEEDS.

3
CONFIDENTIAL

| 12.

12. TO GET THE DIALOGUE LAUNCHED WITH MAXIMUM IMPETUS, IT WOULD BE WORTH CONSIDERING THE POSSIBILITY OF A PERSONAL LETTER FROM THE PRIME MINISTER TO THE FEDERAL CHANCELLOR, OR FROM YOU TO GENSCHER SETTING OUT OUR THINKING AND STRESSING THE NEED FOR THE TWO GOVERNMENTS TO MAINTAIN CLOSE CONTACT. THE OBJECT OF THIS WOULD BE TO CREATE AS CONSTRUCTIVE AN ATMOSPHERE AS POSSIBLE FOR THE FIRST MEETING THE PROPOSED ANGLO-GERMAN QUOTE COMMISSION UNQUOTE, ABOUT WHICH THE CHANCELLOR OF THE EXCHEQUER HAS WRITTEN TO MATTHOEFER AND WHICH I UNDERSTAND WE HOPE MIGHT CONVENE AT THE BEGINNING OF SEPTEMBER. WE SHOULD ARRANGE BILATERAL MEETINGS WITH BOTH CORTIER AND GENSCHER, IN THE RUN UP TO THE PRIME MINISTER'S MEETING WITH THE FEDERAL CHANCELLOR AT THE CONSULTATIONS ON 29-30 OCTOBER, WELL BEFORE THE NOVEMBER EUROPEAN COUNCIL.

13. OUR ESSENTIAL MESSAGE IN THESE CONTACTS SHOULD, IT SEEMS TO ME, BE:-

(A) THIS IS OUR LAST OPPORTUNITY FOR THE FORESEEABLE FUTURE TO ACHIEVE A FAIR AND UNARBITRARY ALLOCATION OF BURDENS WITHIN THE COMMUNITY. WITHOUT THIS WE CANNOT HOPE FOR WHOLEHEARTED COMMITMENT BY MEMBER STATES TO THE COMMUNITY'S FURTHER DEVELOPMENTS.

(B) THE IMPORTANCE OF THE FRG AND THE UK STAYING TOGETHER TO ACHIEVE THIS.

(C) OUR BELIEF THAT WE HAVE, GIVEN OUR STRENGTH AND THE INTRINSIC MERITS OF OUR CASE, A GOOD CHANCE OF SUCCESS, AT THE PRICE ONLY OF A TEMPORARY UPHEAVAL IN THE COMMUNITY.

14. IN PURSUING THIS DIALOGUE WITH THE GERMANS THERE ARE SEVERAL POINTS WE WILL HAVE TO KEEP IN MIND. WE MUST NOT APPEAR TO SEEK AN EXCLUSIVE RELATIONSHIP, CUTTING OUT THE FRENCH. WE MUST SHOW UNDERSTANDING OF THE CONCERNS OF THE SMALL RICH, PARTICULARLY ABOUT DIRECTORATES. WE SHALL NEED TO BRING OUT THE COMMUNITY, NOT JUST THE NATIONAL, ARGUMENTS FOR THOROUGH-GOING REFORM. WE WILL ALSO NEED TO SHOW THE GERMANS BY OUR ACTIONS THAT WE ARE IN EARNEST ABOUT THE FURTHER DEVELOPEMENT OF THE COMMUNITY ONCE WE HAVE GOT THE CAP AND BUDGET RIGHT. FOR EXAMPLE A CONSCIOUSLY COMMUNAUTAIRE PRESENTATION OF OUR EFFORTS TO ACHIEVE A CFP AND THE IMPORTANCE WE ATTACH TO LIBERALISATION OF SERVICES WOULD HELP CONVINCE THE GERMANS THAT WE MEAN WHAT WE SAY. AND A POSITIVE MOVE ON THE EMS OR ON ENERGY, WERE EITHER JUDGED POSSIBLE, WOULD PROBABLY HAVE MORE IMPACT THAN ANYTHING ELSE ON THE CHANCELLOR PERSONALLY.

15. WE CANNOT BE SURE OF SUCCESS. THE GERMANS HAVE A TRADITION OF BACKING AWAY FROM SHOW DOWNS IN THE COMMUNITY. THEY MIGHT FIND OUR ADVOCACY OF A RADICAL APPROACH IN THE END UNCONVINCING. BUT EVEN IN THIS WORST CASE, THE DIALOGUE I ENVISAGE WOULD SERVE THE SUBORDINATE, DEFENSIVE PURPOSE OF GIVING US ADVANCE WARNING IF THE GERMANS WERE GOING TO BACK AWAY, AND TIME TO ADJUST OUR AIMS ACCORDINGLY SO AS TO AVOID FINDING OURSELVES FIGHTING A STRUGGLE WITHOUT ALLIES.

TAYLOR
FRAME GENERAL
ECD(1)

THIS TELEGRAM
WAS NOT
ADVANCED

4
CONFIDENTIAL